Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/33**

Paper 3 Multiple Choice **October/November 2016**

1 hour 15 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

1008695788

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, glue or correction fluid.
Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.
DO **NOT** WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A**, **B**, **C** and **D**.
Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

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1 Which equation is correct?

A Private benefit equals social benefit minus net external benefit.

B Private cost equals social cost minus net private benefit.

C Social benefit equals net private benefit plus net private cost.

D Social cost equals private cost plus external cost.

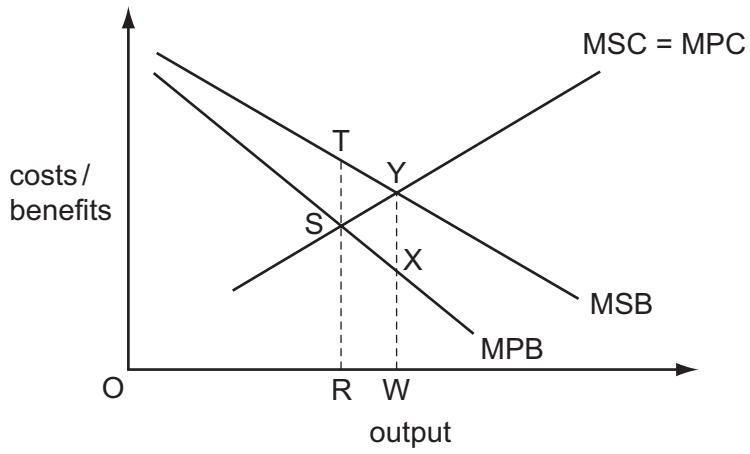
2 The government has to choose the best of four routes to build a new railway line.

The benefits and costs of each are shown in $m in the table.

Which route would be chosen?

	private benefit	external benefit	private cost	external cost
A	600	600	100	150
B	700	600	150	200
C	800	500	100	150
D	900	700	200	300

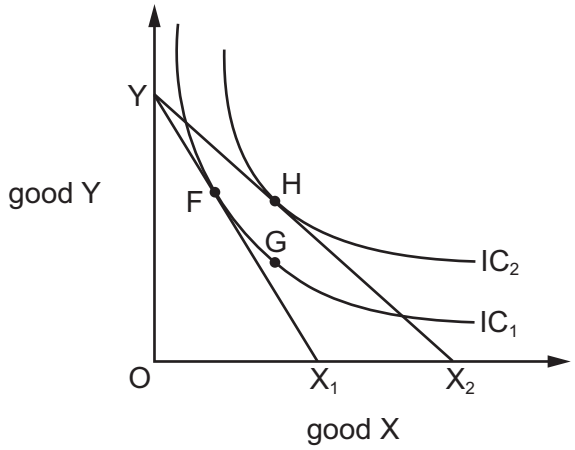
3 A government is planning to intervene in a market to fix output at the socially desirable level by giving a subsidy.



To achieve its objective, what should be the subsidy per unit?

A ST **B** SX **C** TY **D** XY

4 The diagram shows two indifference curves and two budget lines for goods X and Y.



The consumer's preferred final position becomes point H.

What does the movement from G to H represent?

A the income effect of a price fall for X

B the price effect of a price change for X

C the substitution effect of a price fall for X

D the substitution effect of a price rise for X

5 Which act of purchase or consumption is most likely to illustrate the law of diminishing marginal utility?

A the final course of an 'eat all you can' banquet to end an evening out

B the last coin to complete an enthusiast's coin collection

C the second of the two rolls of wallpaper needed to decorate a room

D the tenth driving lesson needed to enable a learner to pass the driving test

6 Why might an industry consist mainly of small firms?

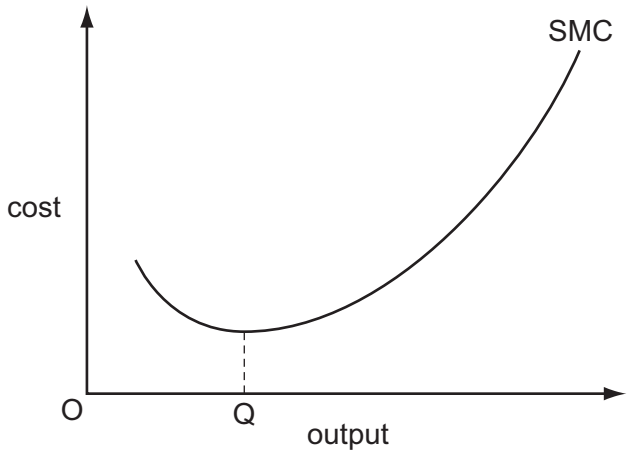
A Diseconomies of scale occur at a low level of output.

B Government policy encourages horizontal integration.

C Integration is impossible.

D There is an international market for the product.

7 The diagram shows a firm's short-run marginal cost curve.



What explains why the curve is upward sloping at output levels above OQ?

A diseconomies of scale

B inelasticity of supply

C rising fixed costs

D the law of variable proportions

8 The table shows average total cost and marginal cost for a firm in perfect competition for a range of output.

output	1	2	3	4	5
average total cost $	12	7.5	6	5.25	4.8
marginal cost $	3	3	3	3	3

What can be concluded from the above information?

A The firm is operating with diseconomies of scale.

B The firm's average variable cost is constant.

C The firm's fixed costs are $12.

D The firm's revenue will not cover cost for this output.

9 What is an example of the principal-agent problem?

A the disincentive effect for entrepreneurs of high government tax rates

B the existence of a trade union to put forward workers' views to managers

C the lack of consumer knowledge of the quality of firms' products

D the separation of the owners of a firm from the firm's managers

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10 A firm in monopolistic competition increases its expenditure on marketing its product.

What will it **not** be able to achieve as a result?

A a higher long-run profit

B a higher selling price

C a more differentiated product

D a more inelastic demand

11 A market structure in which a small number of firms face competition from potential entrants.

What does this describe?

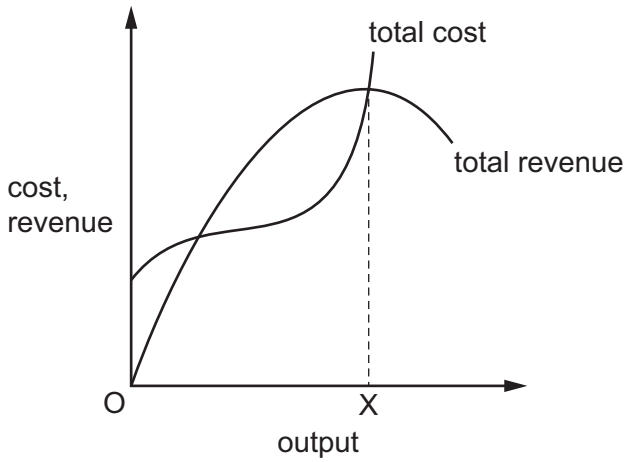
A a contestable market

B a monopoly

C monopolistic competition

D perfect oligopoly

12 The diagram shows cost and revenue of a monopoly that decides to produce at OX.



What can definitely be confirmed as the firm's aim?

A growth rate maximisation

B long-run profit maximisation

C sales revenue maximisation

D short-run profit maximisation

13 What is most likely to be the reason why monopolistically competitive firms are able to influence price?

A The firms in the industry are able to prevent the entry of new firms when abnormal profits are earned.

B The firms produce where average costs are falling and so experience excess capacity.

C The output is where marginal revenue exceeds average revenue.

D The products are differentiated and so are not perfect substitutes.

14 What could **not** justify state intervention in an economy on grounds of 'market failure'?

A monopoly supply of certain goods

B pollution of rivers

C the existence of large-scale poverty

D the existence of public goods

15 Governments consider both efficiency and equity in deciding microeconomic policy.

What statement about the resulting decisions is correct?

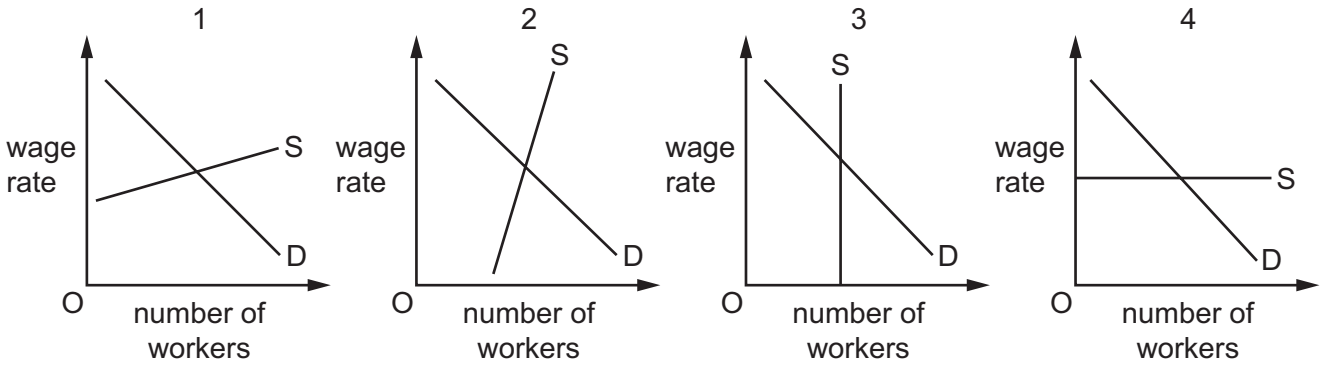
A An economically inefficient outcome is certain to be inequitable.

B Both efficiency and equity decisions are based on positive economic judgements.

C Equity can only be achieved when incomes are redistributed equally.

D The creation of an equitable situation may increase economic efficiency.

16 The diagrams show the demand for and supply of labour in four markets.

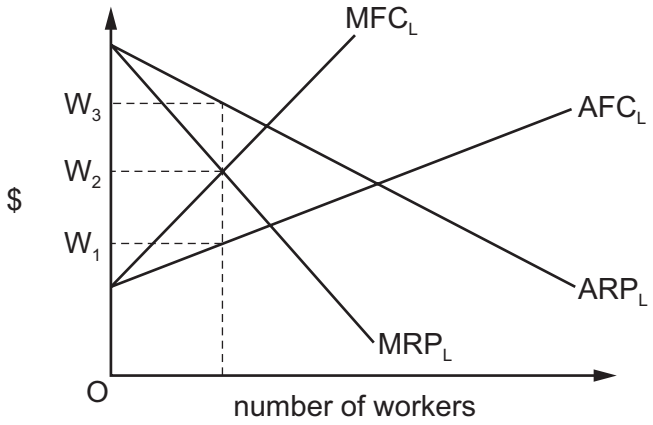


In which markets would labour's transfer earnings exceed its economic rent?

A 1 and 2 **B** 1 and 4 **C** 2 and 3 **D** 3 and 4

17 In the diagram, the ARP_L curve is the average revenue product curve of labour of a profit-maximising monopsonist and the MRP_L is the marginal revenue product of labour curve.

The curves AFC_L and MFC_L are the firm's average and marginal factor cost curves.



What is a likely outcome if a trade union negotiated a different wage from the original market wage?

	original market wage	possible range of new wage	effect on employment
A	W_1	W_1–W_2	increase
B	W_1	W_2–W_3	increase
C	W_2	W_2–W_3	decrease
D	W_3	W_1–W_3	decrease

18 What would be likely to reduce the mobility of labour between a depressed and a prosperous region of a country?

A a developed market in rented accommodation in the prosperous region

B a high rate of job turnover in the prosperous region

C the setting of wages at a national level

D the withdrawal of a statutory minimum wage

19 The increase in a country's labour productivity exceeds the increase in its real national output.

What could explain this?

A a decrease in employment

B a deficit in the balance of trade

C an increase in real wages

D an increase in the rate of inflation

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20 The table shows the annual percentage (%) change in China's GDP and the contribution of some of its component parts between 2006 and 2012.

	2006	2007	2008	2009	2010	2011	2012
GDP	12.7	14.2	9.6	9.2	10.4	9.3	7.7
consumption	5.1	5.6	4.2	4.6	4.5	5.2	4.2
investment	5.5	6.0	4.5	8.1	5.5	4.5	3.9
net exports	2.1	2.6	0.9	–3.5	0.4	–0.4	–0.4

What can be concluded about China's economy between 2006 and 2012?

A China's current account was in surplus more years than it was in deficit.

B China's economic rate of growth fell in more years than it rose.

C China's growth was greater overall in consumer goods than in capital goods.

D China's standard of living rose at a decreasing rate.

21 What has been a common economic factor in countries that have developed rapidly in recent years?

A decreased population

B increased emphasis on government planning

C increased openness to international trade and investment

D increased unemployment

22 National income statistics show that real GDP per head is 25% higher in country X than in country Y.

Why might this difference exaggerate the gap in average living standards between the two countries?

A Country X has a higher rate of inflation than country Y.

B Country X has a larger population than country Y.

C The proportion of services that people provide for themselves is higher in country Y.

D The proportion of the country's industry owned by foreign firms is higher in country Y.

23 What might help improve economic growth in developing countries over the next five years?

A an increase in income tax

B an increase in the birth rate

C an increase in the budget surplus

D an increase in training

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24 Which explains how changes in national income may be brought about by changes in investment?

A the acceleration principle

B the investment function

C the marginal efficiency of capital

D the theory of the multiplier

25 In a closed economy with no government, the equilibrium level of income occurs where

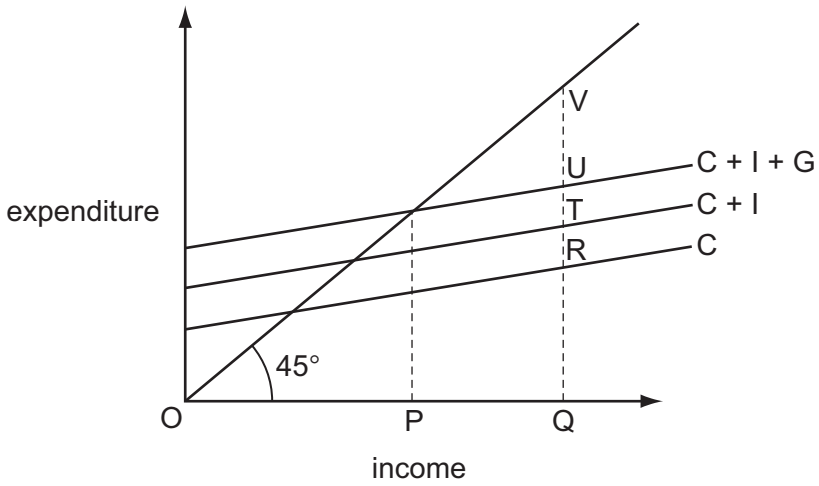
A planned consumption is equal to desired investment.

B planned consumption is equal to desired savings.

C planned investment is equal to desired savings.

D planned savings plus desired investment is equal to consumption.

26 In the diagram, OP is the equilibrium level of income and OQ the full employment level of income in a closed economy.



What is the deflationary gap?

A PQ **B** RV **C** TV **D** UV

27 Which is most likely to cause an increase in a country's money supply?

A a balance of payments surplus

B a government budget surplus

C cash withdrawals by commercial bank depositors

D the recall of loans by the commercial banks

28 Unemployment in an economy increases.

What is a probable consequence?

A a switch from direct to indirect taxation

B an increase in demand-pull inflation

C an increase in the balance of trade deficit

D an increase in the government budget deficit

29 Other things being equal, what is likely to result from a decrease in interest rates?

A a decrease in investment

B a net capital inflow

C an appreciation of the currency

D an increase in consumption

30 In the absence of offsetting factors, how will an increase in interest rates affect share prices?

A It will decrease share prices because financial investors will prefer to purchase bonds.

B It will decrease share prices because inflationary pressure will increase.

C It will increase share prices because company profits will rise.

D It will increase share prices because saving will become less attractive.

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